Calgary

Priorities and Finance Committee

Real Estate Working Group Verbal Update - PFC2021-0237

April 27, 2021

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Outline

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Real Estate Working Group - Mandate

- Provide insight
- Identify barriers
- Prioritize barriers
- Work with relevant key stakeholders
- Provide ideas for solutions

Real Estate Working Group - Scope

To assist the Chief Finance Officer (CFO) and the Business & Local Economy (BLE) team.

- Recommendation #19 — Distribute tax responsibility appropriately
- Recommendation #21 — Leverage untapped revenue potential, specifically real estate assets and investments
- Recommendation #33 — Investigate the crisis level vacancy in the downtown office market

Real Estate Working Group - Members

• Lori Suba	Scout Real Estate	President & Broker
• David White	CivicWorks	Principal
• Krista Nauss	Riverpark Properties	Director of Property Management
• Rob Blackwell	Aspen Properties	Chief Operating Officer,
• Robyn Ferguson	MNP	Senior Manager, Property Tax Services
• Ryan Sirski	Oxford Properties	Vice President, Office Leasing
• John Fisher	CBRE Limited	Sr. Vice President
• Paul Marsden	Colliers Calgary	Executive Vice President & Partner
• Dave Mewha	Altus Group	Senior Director
• Jessica Abt	Haskayne School of Business	Director Westman Centre
• Court Ellingson	Calgary Economic Development	Vice President, Strategy

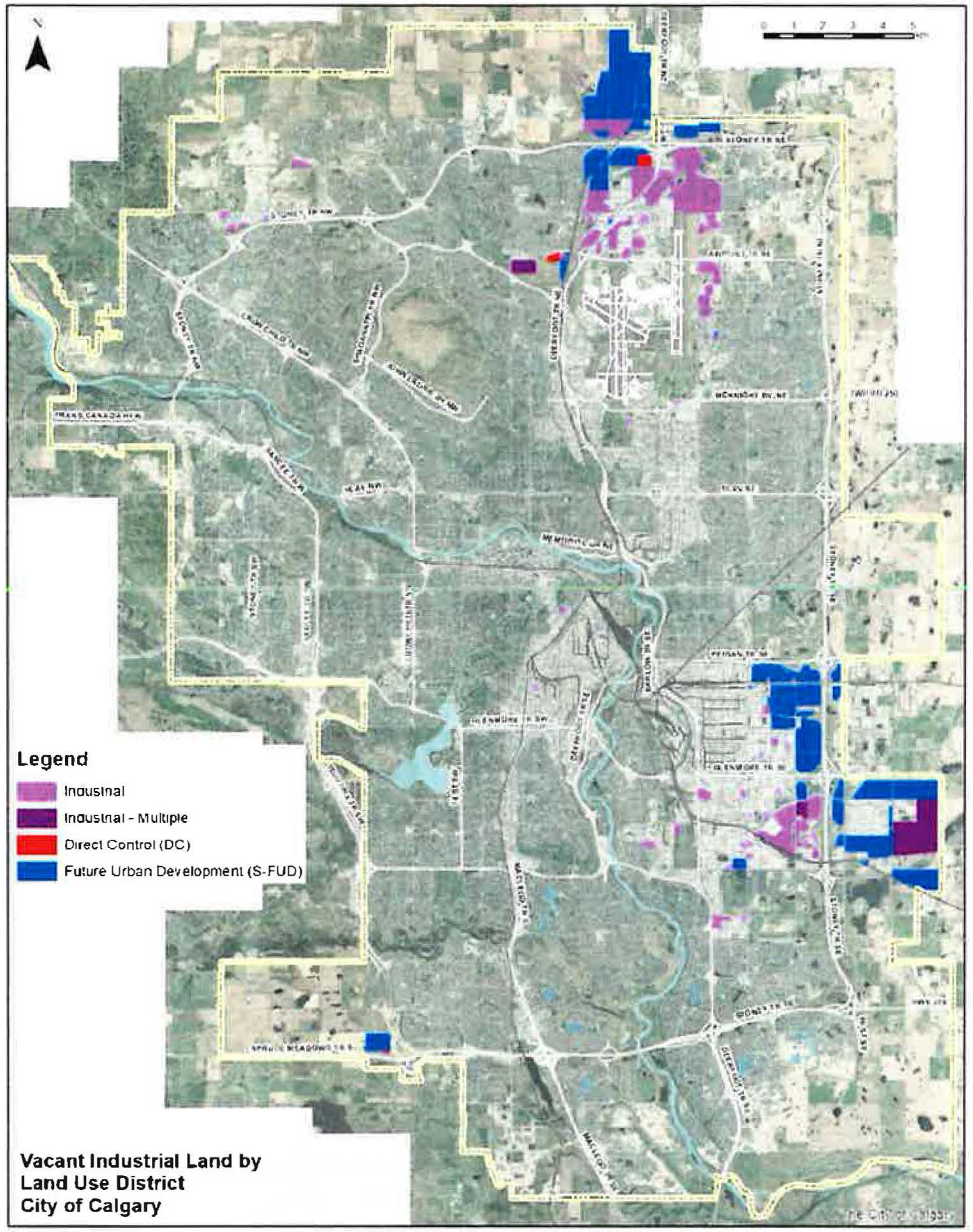
Real Estate Working Group - Schedule

Topic	Priorities & Finance Committee
Industrial Analysis & Incentives (Bill 7)	April 27, 2021
Downtown Office Vacancy	July 20, 2021
Untapped Revenue Potential	September 7, 2021
Res./Non-Res. Tax Distribution	November 9, 2021

Council Direction – Industrial Analysis

1. Identify industrial lands positioned for attracting investment
2. Explore the use of Bill 7 (Property Tax Incentives)
3. Report to Priorities & Finance Committee:
    - a geographic illustration of well-positioned industrial lands
    - projections of one-time gains from industrial land sales
    - projections of non-residential property tax

Industrial Land – Market Analysis



Growth Sectors

- Warehousing and storage
- Freight trucking
- Food merchant wholesalers
- Architectural & structural metals manufacturing
- Recyclable material merchant wholesalers

Strengths & Competition

- Diverse & available land supply
- Inland port
- Transportation network

Industrial – General (I-G) – 372 ha (42% share)
Future Urban Development (S-FUD) – 209 ha (24%)
Industrial – Business (I-B) – 198 ha (22%)
Industrial – Commercial (I-C) – 88 ha (10%)
Other Industrial Land Use Districts – 20 ha (6%)

Source: Cushman Wakefield Industrial Area Growth Strategy Consulting Report, 2021

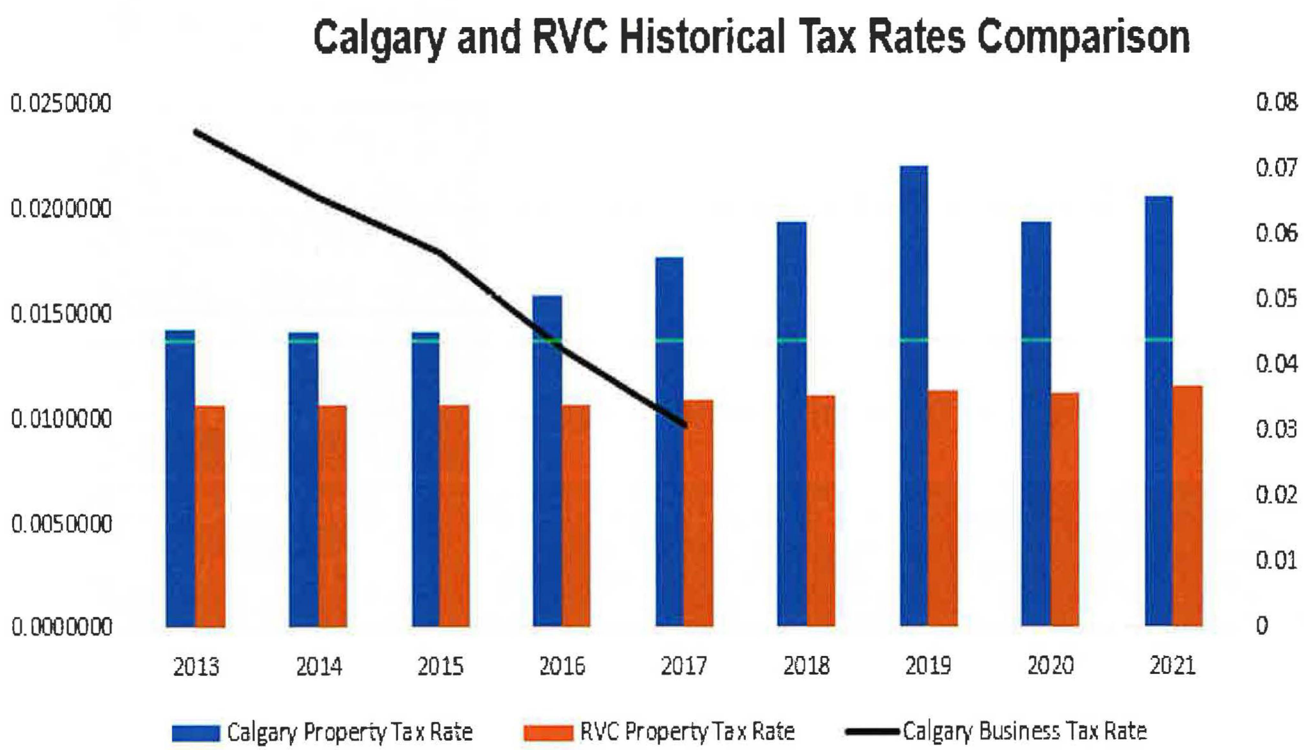
City-Owned Industrial Land – Tax Gains

Status of Land Development	Development Sites	Total Assessed Value	Area (acres)	Potential Tax Revenue
Immediate (0-5 years)	Point Trotter, Dufferin North, Eastlake, Royal Vista, Ogden	$ 199,141,500	412.14	$ 3,151,972
Medium-term (5-15 years)	Aurora, Great Plains Starfield	$ 161,205,500	1145.98	$ 2,551,528
Long-term (15+ years)	Shepard	$ 73,695,500	809.47	$ 1,521,503
Total		$ 434,042,500	2367.59	$ 7,225,003

** Estimated tax revenue based on the 2020 municipal non-residential tax rate*

Industrial Land – Market Analysis

The Industrial Issue



- City of Calgary is losing significant investment (tax base) in the larger format warehouse segment to RVC
- Two drivers of cost savings by going to RVC:
  1. The property tax differential provides an approximate 9% *overall annual cost savings for an industrial occupier in the RCV vs the City of Calgary
  2. Municipal development charges, as well as increased development standards for industrial lands, increase the overall cost base for serviced industrial land:
     - Land cost represent ~25% of an industrial building cost, meaning if the land cost in the City of Calgary is 30%-40% higher as a result the above issues, then the overall cost of the building will be 8-10%
- Total cost benefit to users by going to RVC can be upwards of 17%-19% annually if leasing a facility

* Overall annual cost savings calculated as Basic Rent would be roughly $7.50 per square foot per annum, and operating costs would be $3.50 psf, meaning a total gross cost to the tenant of $11.00 psf. The reduction in mill rate in the RVC provides for roughly a $1.00 psf savings, meaning $1.00/$11.00 = 9%

Industrial Land – Examples

Occupant	Approximate Size (sf)	Year
Amazon (Crosspoint)	502,000	2020
* Amazon (Nose Creek)	600,000	2017
Aosom	170,000	2020
Canada Kitchens	50,000	2020
* Chep	180,000	2020
ConAgra Foods	240,000	2021
Danby Corporation	90,000	2020
Enterra Feed	182,600	2018
* Gordon Food Service	275,000	2016
Home Depot	418,346	2019
* Lowes	1,230,000	2020
Mapei Inc	38,000	2021
Master Group	66,250	2019
Modern Sales	100,000	2018
Mueller Canada	41,500	2019
Pet Valu	155,000	2015
* Princess Auto	265,000	2015
Purity Life Health	35,000	2018
Richards Packaging	36,000	2018
Smuckers	395,000	2016
Sobeys	1,200,000	2017
Wajax	50,000	2019
* Walmart	826,400	2011/2015
* Whirlpool	425,000	2018

Summary

- The List of occupiers represents ~7.5m sf d RVC over the City of Calgary of users who have selected since 2015
- Estimated real estate assessed value of the shown occupants is approaching $1bn
- 7 of these buildings were purpose-built facilities, representing ~3.5m sf
- While large users have occupied existing or speculative buildings within the City since 2015, there has only been 1 purpose-built facility over 200,000 sf in the City since 2015

Deliberations – Bill 7

What is it:

- Municipal Government Property Tax Incentives Amendment Act, 2019 (MGA 364.2)
- Allows Municipalities to enact bylaw providing full or partial exemption from taxation for up to 15 years
- Must be for *"the purpose of encouraging the development or revitalization of non-residential properties for the general benefit of the municipality"*
- Early adopters include Starland County, Ft. Macleod, St. Paul. No large cities have yet adopted.

Potential Implementation in Calgary Industrial:

- Industrial implementation would be best designed to target development we are not competitive on, i.e. Large format warehouse
- Program would be designed to shrink the cost advantage by providing "mill rate matching" for qualifying projects
- Modeled program would provide Municipal mill rate equal to RVC for 10 years
- Qualifying developments would be new $30M+

Deliberations – Bill 7

Pros

- No upfront investment needed
- Would even the playing field with RVC on tax differential
- Show investors we are serious about fixing the issue
- Provide certainty to investors/tenants for up to 15 years
- Broad ability to set criteria for qualification
- Can be revoked if criteria breached

Cons

- Uncertain cost over term (how many would qualify, unforeseen changes to RVC rate). Difficult to budget for
- RVC could match or implement their own rate reduction
- Inequitable/Unfair to existing ratepayers, industrial and otherwise. **Increased mill rate for all others**
- **Uplift of assessment base is largely offset for length of term**
- May be difficult to 'exit' from program
- Potential for unintended consequences (i.e. oversupply of spec., poaching of existing tenants)
- Competitive rather than collaborative approach

Deliberations – Exploring a Grant Program

Objective

To create a level playing field so land developers (including The City of Calgary) can compete for large occupiers within the city limits.

Proposed Solution

Provide a one-time payment (Grant) to occupier or developer who meets set criteria and constructs a new building within city limits.

Initial review indicates that a grant would equal to roughly $10.00 per square foot of new developed building area, could result in attracting larger occupiers back into the city limits.

Criteria

A transparent, responsive review panel would be established to set the criteria for a Grant and approve applications as they are submitted.

A Grant would be intended to attract large-scale investment (i.e. 300,000+ sf), meaning the baseline criteria would be focused around size of facility and anticipated future assessed value.

Risk Assessment

A Grant is intended to be paid upon the completion of the facility resulting in an immediate return from property tax revenue.

A series of backstops will be established to ensure grant investment and expected return is secure.

A Grant program could be scalable and proportionate to the investment made in our community.

Deliberations – Exploring a Grant Program

Pros

- Can set the amount of investment desired or available. Known quantum.
- Upfront incentive to bring development which would offset cost/tax differential
- Shows investors and occupiers we are serious about fixing the issue
- Would have immediate assessment base increase without preferable rate treatment (i.e. more fair with existing stock)
- Broad ability to set criteria for qualification
- Measurable ROI, can provide return of original investment within 6-8 years
- Made in Calgary solution

Cons

- Needs upfront funding source
- Optics of picking winners/recipients, subsidizing thriving business'
- May be viewed as less transparent
- Cannot be revoked once spent

Option Comparison

Bill 7

- Cost (Foregone 10 yr. Tax Rev.) - $31M
- Net New 10 yr. Tax Revenue - $20.1M
- ROI – 65% (over 10 years)

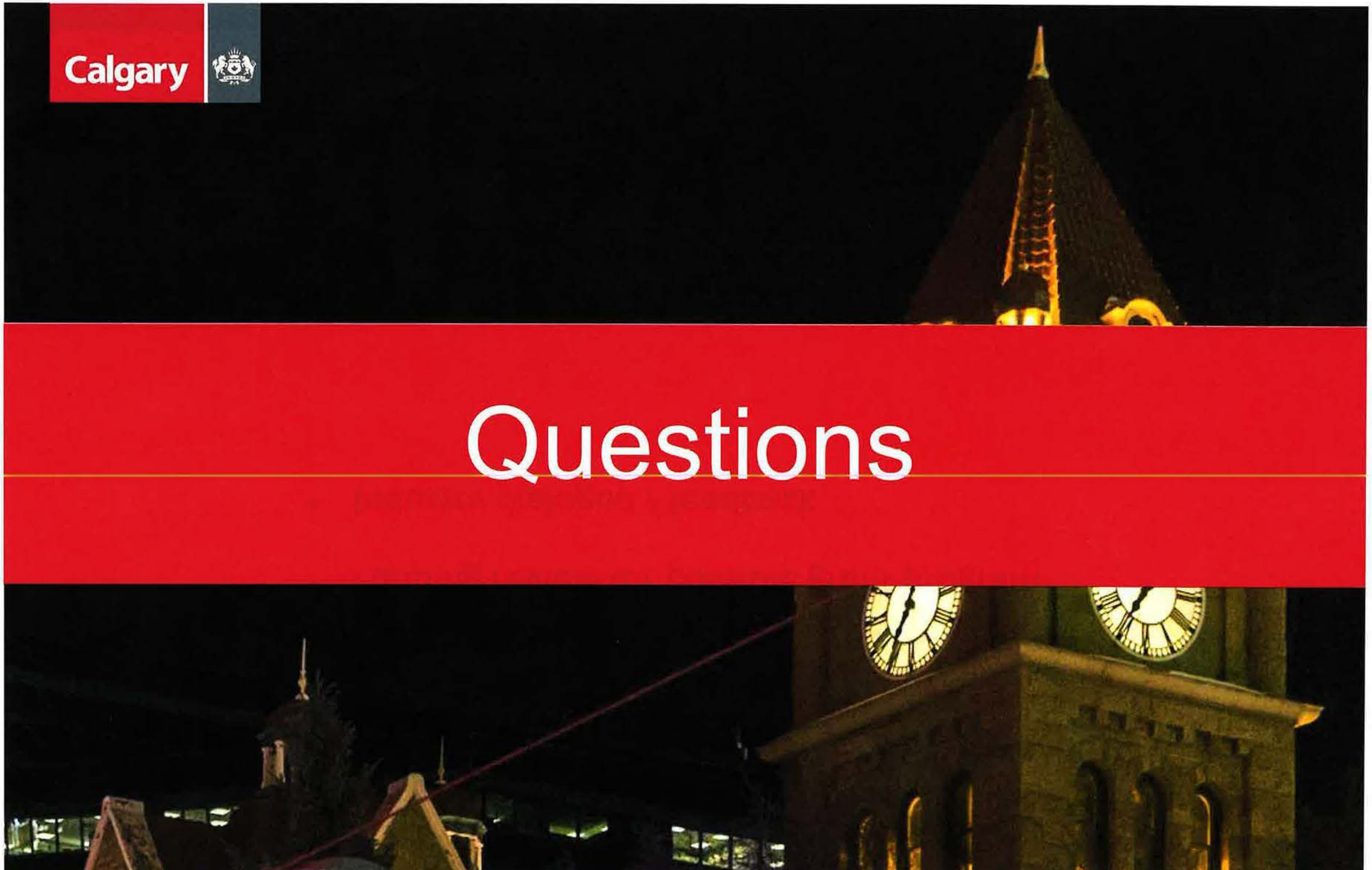
Possible Grant Program

- Cost - $30M*
- Net New 10 yr. Tax Revenue - $43.9M
- ROI – 147% (over 10 years)

** Options modeled on same valuation and inflation assumptions. Forecast 3M sf first 3 years then ceased.*

Next Steps – Industrial Analysis

- Funding review for possible grant program
- Industry dialogue / feedback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Questions